

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1725 - SB 1870

February 3, 2016

SUMMARY OF BILL: Decreases from \$400 to \$200 the annual occupational privilege tax imposed on real estate brokers.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$657,100/FY15-16 and Subsequent Years

Decrease State Expenditures – \$200/FY15-16 and Subsequent Years

Increase Local Revenue – \$9,400/FY15-16 and Subsequent Years

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), occupational privilege tax is a \$400 tax on persons engaging in specified occupations in Tennessee, due and payable on June 1 of each year.
- The first proposed tax decrease applies to the tax year beginning on June 1, 2016. As a result, the first year impacted by this bill will be FY15-16.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.
- The Department of Revenue reports that there are approximately 3,400 real estate brokers that paid the occupational privilege tax for the current tax year ending May 30, 2016. This number is assumed to remain constant into perpetuity.
- Pursuant to Tenn. Code Ann. § 67-4-1709, any employer, including any governmental entity, is authorized to remit the occupational privilege tax on behalf of persons subject to the tax who are employed by such employer.
- There is one real estate broker for which the State of Tennessee pays the occupational privilege tax. This number is assumed to remain constant into perpetuity.
- The recurring decrease in state revenue is estimated to be \$680,000 (3,400 real estate brokers x \$200 tax reduction).
- The recurring decrease in state expenditures is estimated to be \$200 (1 real estate broker x \$200 tax reduction).
- Fifty percent of tax savings, net of the amounts paid by the state, will be spent in the economy on sales taxable goods and services. Total tax savings are estimated to be \$679,800 (\$680,000 - \$200).

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- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax revenue is estimated to be \$22,932 $[(\$679,800 \times 50.0\% \times 7.0\%) - (\$679,800 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The total recurring increase in local sales tax revenue is estimated to be \$9,359 $[(\$679,800 \times 50.0\% \times 2.5\%) + (\$679,800 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$657,068 $(\$680,000 - \$22,932)$.
- There will be no staff reductions as a result of the proposed legislation. Occupational privilege tax returns are filed electronically and the Department does not have any staff dedicated to this tax.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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